

# NCUA News

## Quarterly Growth Is Steady

The nation's largest federally insured credit unions reported a 2.9 percent growth in assets and a 3.1 percent growth in savings during the first quarter of 1999.

The *First Quarter 1999 Call Reports* track results of the federally insured credit unions with assets over \$50 million. The number of credit unions in this category increased from 1,348 to 1,454 since March 1998.

The largest federally insured credit unions reported the following fluctuations during the first quarter of 1999:

- Assets grew from \$300.5 to \$309.3 billion, up 2.9 percent;
- Loans grew from \$190.4 to \$192.0 billion, up 0.9 percent;
- Savings grew from \$263.2 to \$271.2 billion, up 3.1 percent;
- Investments grew from \$95.9 to \$102.5 billion, up 6.9 percent;
- Delinquent loans declined from \$1.4 to \$1.2 billion, down 9.4 percent;
- Delinquent loans to total loans declined from 0.7 to 0.6 percent;
- Membership grew from 49.9 million to 50.4 million, up 1 percent; and the
- Ratio of total loans to total shares declined from 72.3 to 70.8 percent

Looking at some specifics within individual categories –

First mortgage real estate loans, which represents the largest segment of

credit union lending, grew from \$54 to \$56.4 billion in the first quarter of 1999 at the largest federally insured credit unions.

The total amount of real estate loans outstanding at these institutions is \$80.1 billion.

Used automobile loans increased from \$34.4 to \$35.1 billion, and new auto loans declined slightly from \$34.8 to \$34.5 billion. Most other types of loans declined slightly during the first quarter of 1999.

As the largest category of investments, federal agency security investments gained just over 10 percent, increasing from \$41.2 to \$45.5 billion. Corporate Central deposits gained 5 percent, increasing from \$23.5 to \$24.7 billion.

Most savings categories grew during the first quarter of 1999. Regular shares gained 4.8 percent, increasing from \$90 to \$94.4 billion at the largest federally insured credit unions. Money market shares picked up 7.6 percent, increasing from \$36 to \$38.8 billion, and share certificates grew 1.3 percent, increasing from \$69.7 to \$70.6 billion.

Of the 1,454 federally insured credit unions over \$50 million at March 30, 1999, a total of 1,119 have a web site and 451 have an interactive web site.

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## CLF Ceiling Increased

President Bill Clinton signed a 1999 supplemental spending measure into law May 21 that included a provision increasing the Central Liquidity Facility borrowing authority to the statutory limit for year 2000. The CLF borrowing authority, which is 12 times subscribed capital stock and reserves, now exceeds \$20 billion.

Report language accompanying the Appropriations Act specifies that the limit was increased "only to deal with the unlikely scenario that credit unions could experience excessive withdrawals as a result of the millennium date change and may need additional liquidity resources."

NCUA sought additional borrowing authority, which had been limited to \$600 million, as a backstop to ensure sufficient funding is available to meet any type of Y2K liquidity demand.



May 12, 1999 – Committee Chairman Marge Roukema (R-N.J.) and Ranking Member Bruce Vento (D. Minn.) greet NCUA General Counsel Robert M. Fenner (left) prior to his testimony before the House Subcommittee on Financial Institutions and Consumer Credit Committee on Banking and Financial Services. Fenner appeared before the Committee testifying in support of proposals to lessen regulatory burden on financial institutions.

## News Briefs

- **Prompt Corrective Action Proposal** — The prompt corrective action proposal approved by the NCUA Board May 3 was published in the *Federal Register* May 18. The 90-day comment period ends August 16, 1999.
- **Real Estate Loans Alter Balance Sheets** — The significant growth in fixed rate real estate loans has skewed many credit union balance sheets, increasing their interest rate risk exposure significantly. In response, NCUA will issue a *Letter to Credit Unions* emphasizing the importance of prudent risk management in this area.
- **Electronic Financial Services** — As part of an FFIEC initiative, NCUA plans to develop examination policies and procedures, identify and monitor credit union web sites, develop training programs for field staff, issue *Letters to Credit Unions*, *Instructions*, and *Bulletins*, and provide a section in the *Examiners Guide*.
- **Chartering Manual** — NCUA issued its new Chartering and Field of

Membership Manual in May that was adopted by the NCUA Board last December. A *Letter to Credit Unions* providing more details will be released shortly in a Q&A format.

- **Revolving Loan Program Activity** — NCUA's Community Development Revolving Loan Program had 81 loans outstanding totaling \$8,148,416 and had issued 26 technical assistance grants amounting to \$114,342 through April 30, 1999.
- **Chairman Attends White House Conference** — Chairman D'Amours joined President Clinton and Vice President Gore in McAllen, Texas, in late May to take part in the White House hosted Conference on Em-

powerment and Enterprise Zones. During his presentation, Chairman D'Amours described how credit unions empower their communities and bring financial power to the individual members working together. (See story on page 4.)

### Region III Examiner Passes Away

Winson-Salem, N.C., Examiner Joseph Holmes died on Monday, May 24, 1999. Joe Holmes joined NCUA in 1983, and during his career served as a classroom trainer, on the job trainer, a problem case officer, and a corporate examiner.

## ABOUT INVESTMENTS

# Know What You're Buying

When credit union officials buy a new car, they probably ignore the dealership's high pressure tactics. Instead, they talk to recent car buyers, check consumer reviews to make sure the car is a good value, visit several dealers, drive the car, decide which features are worth the price, and compare dealer and Internet prices. When they decide to upgrade the copy machine at the credit union, they compare features and get bids from several before making a decision.



Yet some credit union officials don't use the same care when making investments. When a broker quotes a yield and says the price is only good "right now," they buy. They don't pay enough attention to the investment's features such as maturity, call provisions, possible principal prepayments, interest rate caps or liquidity. They often believe brokers who say, "I'll repurchase the CD earlier than maturity

if you need it," and they ignore the possibility the firm, broker, or promised repurchase price could disappear.

They may not even make a conscientious effort to compare yields on similar investments.

### What steps should credit union officials take before they buy?

- Find out the investment's features, e.g., maturity, calls, caps, potential liquidity, and credit risk.
- Determine if there is any credit risk exposure.
- Check interest rate risk exposure. Have the broker run a rate stress test. Make sure the higher yield is sufficient compensation for the features and additional risk compared to a Treasury security.
- Talk to more than one broker to compare prices on equivalent investments.
- Call another broker if one fails to provide you with enough information to make an educated decision.

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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## **BOARD ACTIONS**

### **MAY 19, 1999**

#### **Proposal Issued to Amend Insurance Premium and One Percent Deposit**

The NCUA Board issued a proposal to amend requirements for obtaining and maintaining federal share insurance through the National Credit Union Share Insurance Fund (NCUSIF). The Credit Union Membership Access Act (CUMAA) mandates revisions to the capitalization of the share insurance fund, maintenance of each insured credit union's one percent deposit, payment of an insurance premium, and distribution of fund equity. The proposal also defines the NCUSIF equity ratio and available assets ratio.

As required by CUMAA, proposed rule changes would:

- Redefine the normal NCUSIF operating level as an equity ratio of between 1.2 and 1.5 percent to be set by the NCUA Board.
- Require the NCUA Board to use the equity ratio and the available assets ratio after each calendar year to determine whether to approve a distribution of equity to insured credit unions and if so, the amount.
- Require adjustments, based on 1 percent of deposits, twice a year for credit unions with \$50 million or more in assets and once a year for credit unions with under \$50 million in assets.
- Require the NCUA Board to use the equity ratio to determine whether to charge insured credit unions an insurance premium not more than twice in any calendar year, and if so, the amount.

Under the proposal, the NCUA Board may assess an insurance premium only if the NCUSIF equity ratio is less than 1.3 percent. The premium charge must not exceed the amount necessary to restore the equity ratio to 1.3 percent. If the equity ratio falls below 1.2 percent, the Board must assess an insurance premium in an amount to restore the equity ratio to 1.2 percent.

The proposed amendment has a 60 day comment period. A final rule must be in effect by January 1, 2000.

#### **Waiver Granted to Corporate Credit Unions**

The NCUA Board granted a waiver of the reserving requirements on all corporate credit union investments in the Community Investment Accounts, which supports the Credit Union Development Community Investment Fund (CIF). This waiver from Section 704.3(c) of the NCUA's Rules and Regulations permits them to exclude CIF-designated investments from the computation of moving daily average net assets when calculating required reserve transfers. This waiver will be in effect as of February 21, 1999, and will remain in effect until December 31, 2000.

#### **Board Upholds Conversion Denial**

The Board upheld Region V Director's denial of the application of Belco First Federal Credit Union in Englewood, Colorado to convert to a community charter. The credit union's request encompasses about 2.2 million residents in six counties surrounding the Denver metropolitan area.

The Region V Director initially denied the application because it did not meet the interaction requirements of a community charter. NCUA's Office of Examination and Insurance and Office of General Counsel agreed with the Region V Director's decision to deny the application. The NCUA Board has concurred that the application and its supplements do not support granting a community charter under the standards of amended IRPS 94-1.

#### **Safe Deposit Box Rule Eliminated**

The NCUA Board removed the regulation regarding safe deposit box service, 12 CFR 701.30, in an effort to reduce regulatory burden and to streamline agency regulations. This regulation is unnecessary because federal credit unions may offer safe deposit box service as part of their routine services.

#### **Conversion to Non Credit Union Status Simplified**

The NCUA Board approved, by a 2-1 vote, Part 708a, revising the rule governing the conversion of insured credit

unions to a mutual savings banks or mutual savings associations. These revisions, required by CUMAA, simplify the charter conversion process and reduce regulatory burden for insured credit unions that choose to convert.

#### **Change in Credit Union Officials or Senior Staff**

The Board members issued a final amendment to Part 701.14(d)(1) regarding the change of official or senior officer in a new or troubled credit union. The amendment clarifies when the notice period commences and when the new official or senior officer may begin service.

#### **Fidelity Bond and Insurance Coverage Rule Amendment**

NCUA Board members approved final rule amendments to Parts 701.20, 713, and 741.201. Part 701.20 has been updated, clarified, revised, and redesignated as Part 713, Fidelity Bond and Insurance Coverage for Federal Credit Unions.

Clearly written and designed to be more accessible, new Part 713 includes the requirements for surety bond coverage for losses caused by federal credit union employees and officials and for general insurance coverage for losses caused by persons outside of the credit union, such as losses due to theft, holdup, or vandalism. It also adds several previously approved bond forms to the regulation.

The rule change also corrects the cross reference in section 741.201 to assure that state chartered, federally insured credit unions follow Part 713 to meet share insurance requirements.

#### **Member Business Loan Rule Adopted**

The Board adopted a final rule, implemented by the interim final business loan rule issued September 23, 1998, that updates, clarifies and streamlines existing rules concerning member business loans for federally insured credit unions and implements the new statutory limitations regarding member business loans.

The effect of this rule is to implement the limitations on member business loans imposed under CUMAA. Among other things, the rule details when a credit union may qualify for an exception from the statutory aggregate loan limit on outstanding member business loans.



# Empowerment Zones Raised to Presidential Spotlight

Chairman D'Amours and Joyce Jackson greet the president and vice president at the 5<sup>th</sup> Annual White House Conference on Community Empowerment. During his address, Vice President Gore thanked Chairman D'Amours for his participation and support.

*"We all know that there are inner cities and poor rural areas and small- and medium-sized towns in between that still have not felt the warm sunlight of our prosperity."*

President Bill Clinton



*"If you add up all the underserved areas in the U.S. that we've visited, they represent \$85 billion in retail purchasing power. That's more than the retail purchasing power of Mexico."*

Vice President Al Gore



## Credit Unions Do Their Part

When the White House invited NCUA Chairman Norman D'Amours to join President Clinton, Vice President Gore, and several cabinet secretaries to address its "5<sup>th</sup> Annual Conference on Community Empowerment" in south Texas, Chairman D'Amours used the opportunity to showcase how credit unions around the country are helping underserved areas retain and recycle their financial assets in their own communities.

For four days in 95-degree weather, Chairman D'Amours, NCUA Executive Director Carolyn Jordan, and Director Joyce Jackson, Office of Community Development Credit Unions, discussed the ways credit unions are helping revitalize federally-designated empowerment zones and enterprise communities.

Meanwhile, President Clinton and Vice President Gore used the occasion to encourage the 600 attendees to urge Congress to fully fund the administration's request for a second round of empowerment zones.

The president's message was simple: "We must...recommit ourselves to the proposition that we do not intend to leave anyone behind as we march into the 21<sup>st</sup> century.

"The 135 empowerment zones and enterprise communities we have designated (since 1993) are now flowing with the life-blood of commerce, capital. Federal seed money has leveraged more than \$14 billion in public and private investment in just

these five years," Clinton said. "The return on this investment is more than financial; as we rebuild our communities we restore the American Dream for many who thought it was out of reach."

## Credit unions acknowledged by Chairman D'Amours during his comments included:

- **\$2.9 million Neighborhood Trust FCU, New York, NY.** Chartered in late 1996, this low-income designated credit union (LICU) serves portions of the Harlem/South Bronx Empowerment Zone within the largely immigrant community of Washington Heights-Inwood (pop. 198,192).
- **\$1.8 million Enterprise Community FCU, Las Vegas, NV.** Chartered in late 1996, this LICU serves the 42,000-plus population in the nine census tracts that make up the Southern Nevada Enterprise Community. Approximately 33 percent of the residents live in poverty.
- **\$112 million Government Agencies FCU, El Centro, CA.** Chartered in 1954, it converted to a low-income community charter in late 1998 to serve Imperial County, which includes three rural empowerment communities. The county borders Mexico, has an unemployment rate of 29 percent, and is home to the largest Hispanic population of any county in California.

## Coming Soon — 1999 Empowerment Workshops II

The Office of Community Development Credit Unions is pleased to announce a new round of Empowerment Workshops set for the Fall of 1999 — Empowerment II Workshops: *A New Millennium of Strategies is Dawning*.

Building on the success of last year's workshops, two new sessions are planned for this year, one in Albuquerque, N.M., (Oct. 22-24) and another in Miami (Nov. 12-14).

The format will be similar to last year's, with a town meeting

kickoff on Friday night and workshop sessions beginning on Saturday morning and concluding on Sunday at noon.

Breakout sessions will cover subjects like *Credit, Collections and Bankruptcy, Leadership Development, Credit Union Issues, and Financial Management Issues*. These topics will be presented by a variety of industry experts and professionals. Watch *NCUA NEWS* and the NCUA web site for further information in the coming months.





## “Good Samaritan Act” Encourages Sharing Information

A law intended to promote the voluntary sharing of information to help identify and repair Year 2000 computer problems was signed by President Clinton on October 19, 1998. This law is known as the “Year 2000 Information and Readiness Disclosure Act,” (P.L. 105-271) or simply, the “Good Samaritan Act.”

The purpose of the Act is to:

- Promote the free disclosure and exchange of information related to Year 2000 readiness;
- Assist consumers, small businesses, and local government in effectively and rapidly responding to Year 2000 problems; and
- Lessen the burden on interstate commerce by establishing certain uniform legal principles in connection with the disclosure and exchange of information related to Year 2000 readiness.

The Act promotes sharing of information by limiting liability for statements related to Year 2000 readiness and providing temporary exemptions to antitrust laws. The Act was created in response to concerns that information pertaining to the readiness of Year 2000 products may not be freely and promptly shared due to fear of legal liability.

Liability is limited through an evidentiary exclusion related to Year 2000 Disclosures — Year 2000 Readiness Disclosure statements can not be entered into evidence in a lawsuit against the maker of the Year 2000 Disclosure *for the purpose of proving the truthfulness of a Year 2000 Disclosure*. The Act also states that Year 2000 statements shall not be interpreted as amending or altering existing contract or warranty terms.

Despite the evidentiary exclusion, Year 2000 Readiness Disclosures may be entered into evidence for other purposes. The Act does not provide liability protection for product failure due to Year 2000 problems, nor does it apply to consumers who have purchased a product that is normally for personal use. The Act does not affect claims that may arise out of contractual relationships between parties.

The Act not only applies to the maker of Year 2000 information, but also applies to individuals who participated in preparing, reviewing, developing, issuing, approving, revising, or publishing the information. The Act also applies to entities which republish Year 2000 information.

The Act describes two types of Year 2000 communications — “Year 2000 Statements” and “Year 2000 Readiness Disclosures.”

A Year 2000 Statement is any form of communication —

- “concerning an assessment, projection, or estimate concerning year 2000 processing capabilities of an entity, product or service or set of products and services;
- “concerning plans, objectives, or timetables for implementing or verifying the year 2000 processing capabilities of an entity, product, service, or set of products and services;
- “concerning test plans, test dates, test results, or operational problems or solutions related to year 2000 processing by products or services that incorporate or utilize products; or
- “reviewing, commenting on, or otherwise directly or indirectly related to year 2000 processing capabilities.”

A Year 2000 Readiness Disclosure is a subset of a Year 2000 Statement. It is defined as a written Year 2000 Statement which is:

- identified on its face as a Year 2000 Readiness Disclosure;
- written in a tangible medium or stored in an electronic or other medium and retrievable in a perceivable form (i.e. - paper, electronic storage, etc.); and
- issued or published by the person or entity the statement is about, or with the permission of the person or entity the statement is about.

For original publishers of a Year 2000 Statement, the maker of a false statement shall not be liable under federal or state law unless it is proven by clear and convincing evidence that —

1. The Year 2000 Statement was material.
2. The Year 2000 Statement was made with:
  - knowledge that it was false, misleading, or inaccurate;
  - the intent to mislead; or
  - reckless disregard to the accuracy of the Year 2000 Statement.

For “republishes” of Year 2000 Statements, a similar standard applies. If you plan to republish Year 2000 information, identify the source of the published material and specify if you have or have not verified the contents of the information.

## Conversations with America



NCUA wants to stimulate input from our public. To encourage conversations between our public and NCUA, the following lists upcoming events where NCUA Board members will be available to hear ideas and opinions directly from our various credit union audiences.

- **Who and What:** Chairman Norman D'Amours will address the annual meeting of the National Association of Credit Union Supervisory & Auditing Committees (NACUSAC). He will discuss NCUA regulatory initiatives and relevant developments in Congress. The event is by invitation only.
- **When:** June 16, 1999

- **Where:** Bally's Hotel, Las Vegas
- **Why:** Participant feedback is encouraged on any NCUA initiative or policy.
- **Contact:** Lesia Bullock at 703-518-6333 or lesiab@ncua.gov.

- **Who and What:** Chairman Norman D'Amours will address the annual meeting of the National Federation of Community Development Credit Unions (NFCDCU) on June 19. He will discuss NCUA regulatory initiatives and relevant developments in Congress. The event is open to registrants.

- **When:** June 15-19, 1999
- **Where:** World Trade Center Hotel, New York, N.Y.
- **Why:** Participant feedback is encouraged on any NCUA initiative or policy.
- **Contact:** Lesia Bullock at 703-518-6333 or lesiab@ncua.gov.

- **Who and What:** Board Member Yolanda Townsend Wheat will attend and participate in the Women's Symposium 99. In her address to participants, Wheat will explain where credit unions and the NCUA stand with their Y2K efforts, the increased borrowing author-

ity now available to the Central Liquidity Facility, and the bankruptcy initiatives being considered by Congress. The event is by invitation only.

- **When:** June 11-13, 1999
- **Where:** Wild Dunes Hotel, Charleston, S.C.
- **Why:** Participant feedback will be considered for these and any other NCUA initiative or policy.
- **Contact:** Margaret Broadway for additional information at 703-518-6313 or margeb@ncua.gov.

- **Who and What:** Board Member Dennis Dollar will attend and participate in the Louisiana Credit Union League's Annual Meeting. Mr. Dollar will speak on "NCUA and Credit Unions: 2000 and Beyond."
- **When:** Friday, June 18, 1999
- **Where:** Hyatt Regency Hotel, New Orleans, Louisiana
- **Why:** Participant feedback will be considered and solicited on this and any other NCUA initiative or policy. Questions and answers with participants is scheduled.
- **Contact:** Kirk Cuevas for additional information at 703 518-6306 or jcuevas@ncua.gov

# NCUA News

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